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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE condition of general business has continued unsatisfactory during May, and business men who have been hoping for signs of a definite turn in the situation have had to reconcile themselves to further waiting. Business, indeed, has shown a progressive increase in activity as compared with the early months of the year, but this has to be viewed in the light of the normal seasonal tendency which is always upward during the Spring. When allowance has been made for this seasonal factor it is not clear that much in the way of general business improvement can yet be claimed.

All of which is in accord with experience that it requires time for industry to rid itself of unsound conditions which invariably creep in during periods of extended prosperity. That the pace of business and speculation last year was excessive is now clear to everyone. Considering the extent of overproduction in some important lines, the unprecedented scale of stock speculation, and the degree of disorganization resulting from these extravagances, it is not surprising that recovery should be slow.

The thing, however, to be guarded against at the present time is an excess of pessimism, just as an excess of optimism was the basis of danger a year ago. Last year a great many people could see no limit to the possibilities for expansion; now, some of these same people seem to have lost all confidence in the country's capacity for recovery. Undoubtedly the one viewpoint is as unwarranted as the other. It is true that the situation is not without serious complications, including the world-wide scope of the reaction, the fall in commodity prices and accumulation of stocks of raw materials. We do not wish to minimize these difficulties, but we are impressed with the recuperative powers of the country as demonstrated repeatedly in the past.

So long as prices are falling it is natural for buyers to hold off, both because of lack of confidence engendered by the fall and because of a desire to buy at the lowest possible levels. During this period of suspended activity stocks pile up in the hands of producers or primary distributors, where they acquire an exaggerated significance by reason of their being in the show window of "visible supplies." Once, however, prices are believed to have touched bottom, and buyers who have been holding off come in to replenish their depleted stocks, it is often surprising how quickly the bugaboo of excessive stocks is dissipated. Only recently we have seen how this works in the case of copper. With the cut in the price of the metal to 12¼ cents, orders placed during May were the largest for any month in the history of the industry. While the stocks continue large, the situation in the copper industry has been materially improved by this breaking of the deadlock between producers and consumers.

Periods of Recession Inevitable

It is a common saying that such and such a person could not stand prosperity, and experience has shown that the business community cannot stand prosperity indefinitely. Such periods induce heavy investments of capital for increasing production, and the industrial equilibrium is not always maintained. Management, lulled to a false sense of security by easy profits, tends to relax that constant vigilance over costs which is the price of economical operation, permitting carelessness, extravagance and neglect of sound business principles to undermine efficiency. Costs and prices rise, speculation develops, and the business situation becomes honeycombed with weak spots which give way under strain.

It is characteristic of good times that a great body of indebtedness is created to be paid in the future. The expenditure of these capital sums is one of the features of the good times, but if the investments prove unprofitable or not promptly remunerative this pace of expenditures cannot be maintained, and reaction follows. It is an old saying that people go into debt in good times and pay their debts under pressure of bad times.

As a result of such conditions, industry loses the fine adjustment of relationship which we have seen to be the condition of prosperity.

A boom period commits errors which have to be corrected and paid for, and the period of recession which follows is a period of readjustment and reorganization. The whole industrial organization slows down to recover its normal equilibrium. Business men go through their shops with a keen eye to reducing costs. Uneconomical methods and loose practices that have grown up during the tolerant times of prosperity are thrown out. Surplus personnel is dispensed with and waste motion eliminated wherever possible. Management and technical staffs redouble their efforts to find ways of producing the same or better product more cheaply. Business, in short, undergoes a needed thorough over-hauling, is shorn of its excess fat, and trained down once more to fine competitive form. This country is passing through that process at the present time, and once the process is completed will be on a vastly sounder basis than a year ago.

The Joint Responsibility of All Classes

Precisely how long this period of readjustment and reorganization will take in any given instance depends a great deal on how much resistance is accorded to the forces working to reestablish an equilibrium. Since all business in the last analysis consists of an exchange of products and services, it follows that any group seeking special advantages for itself in defiance of economic law by holding out against the trend constitutes a disturbing element which tends to retard the recovery of business as a whole. The demonstration has been made repeatedly that efforts of this sort fail of their purpose, usually with magnified losses to all concerned, yet such is the reluctance of mankind to be guided by experience that there are always some ready to make the attempt anew.

Nowhere is this realization of the joint responsibility for maintaining stability in industry more imperative than in the relations between Labor and Capital. There is an obligation upon both to have regard for the public welfare and to work in good faith and willing cooperation to secure the largest and best results. Moreover, this policy involves no sacrifice to either party. Labor has a larger interest in actual wages than in nominal wage rates, and wages are far more dependent upon fundamental conditions than upon the efforts of the unions. The rise of the standard of living always has been dependent upon the increasing efficiency of the industrial organization as a whole.

Situation in the Building Industry

It is usually recognized that fluctuations in the construction industry are a vital factor in determining the activity of business in general. And the activity of building, in turn, is conditioned quite largely on costs, in which labor is the predominant element. During the years immediately following the war the building industry was under pressure of a heavy accumulated demand, and wages in the building trades rose steadily above the war time peak. While in recent years builders have had the advantage of some decline in the cost of building materials, wages have continued to be pushed up and in 1929, according to the index of building wages computed by the Federal Reserve Bank of New York, averaged 237 per cent of the 1913 level.

Due principally to this high level of wages and to the many restrictions imposed by the unions which have prevented offsetting economies, building costs have been maintained at levels which not only act as a brake upon new construction but are responsible for the enormous increase in rents which bears so heavily upon the population of our cities, including the wage earners themselves. Could it be done economically, there is an enormous potential field for building in the eradication of the slums of our great cities, and appeals are constantly made to builders and lenders of capital to become interested in "model housing" projects which would provide modern, hygienic and attractive homes within reach of people of limited means. There is no question as to the desirability of such building, both from the social point of view and for its effects on business, but unfortunately, with building costs what they are today, such projects cannot be made to pay. Under such circumstances must Capital alone assume responsibility? Is it not a fair question to ask what Labor has to contribute, particularly in view of the fact that it is the wage earning class that stands to benefit most from such construction?

Furthermore, it is to be considered that this upward trend of wages in the building industry has been maintained in the face of a high degree of unemployment among building trades workers. According to a recent report of the American Federation of Labor, 40 per cent of the membership of its affiliated building trades unions were out of work on April 1 this year; a year ago the figure was 29 per cent and two years ago 32 per cent. Following is a table comparing these figures with those for other trades and for the entire Federation membership, which indicates the building trades unemployment to have been consistently above the average.

UNEMPLOYMENT IN THE UNITED STATES
Per Cent of Union Members Unemployed

	April, 1930	April, 1929	April, 1928
All Trades	20	12	16
Building Trades	40	29	32
Metal Trades	19	5	12
Printing Trades	6	4	5
All Other Trades	12	—	—

* Preliminary.

The Historical Basis for Anticipating Recovery

We have said that one of the prime factors determining the rapidity of business recovery will be the extent to which all groups of the business world are willing to cooperate promptly and unselfishly to that end. At the same time business will have as a revitalizing force the enormous momentum of the country's growth, with its accompanying demands of 120,000,000 people. During the period of curtailed production, consumption has gone on,—in somewhat reduced volume, to be sure, but nevertheless at a rate in excess of production,—so that it is only a question of time before shortages begin to develop and necessitate a speeding up of the productive machine. As early as last Summer business in this country began to fall off, and ever since the stock market break of last October has been on a distinctly subnormal basis. Experience has shown that this is a long period for business in this country to be down without at least the commencement of the up-trend.

It will be seen upon examination of the records that at no time during the past thirty years (with the possible exception of 1914 when the war broke out) has business, commencing depression in one year, failed to at least begin recovery before the close of the following year. In some cases this upturn was more marked than in others. Generally, however, by some time in the second year following, business had regained full normal activity, while the third year usually marked the peak of the cycle once more.

It is true that going back of 1900 reveals several instances of more protracted business depressions notably the years following the panics of 1873 and 1893, and the years 1884 and 1885. It should be remembered, however, that the business of the country was far less diversified at that time and lacked the recuperative power demonstrated in more recent years. Moreover, these former times were marked by constant agitation over the money question, which tended to shake business confidence and delay recovery. This was particularly true in 1896 when alarm over the silver question led to an outflow of funds from this country, with consequent heavy loss of gold and tightening of the money market at a time when business was just struggling back to normal.

Above all, business has in its favor at the present time one of the most important influences predisposing to recovery — easy money. That the condition of credit is among the principal influences affecting business is generally recognized. With the money factor as favorable as now, and with the record of past depressions so suggestive of the country's ability to regain its stride, there seems reason for confidence that business will soon begin the climb back to normal prosperity. While this tendency may not be very marked during the Summer months it ought to be apparent during the Fall, assuming normal agricultural yields.

Present Business Situation

With regard to the immediate situation, the principal measures of general business continue to run considerably under a year ago. Railway carloadings of merchandise and miscellaneous freight during the first three weeks of May were 8 per cent less than in the corresponding period of 1929, and 5 per cent less than in 1928. Gross earnings of 44 railroads thus far reported for April were off 12 per cent from last year, with net earnings down a third. Industrial consumption of electric power was 12 per cent under that of April last year, while factory employment and payrolls in reporting establishments throughout the country showed decreases of 10 per cent and 14 per cent respectively.

Despite this rather unfavorable showing it should not be supposed that business has been entirely without gains. Several individual industries have succeeded in forging ahead of last year. This was true notably of shipbuilding, which showed gains over a year ago in consumption of power and in employees and total payrolls. Leather and products and chemicals and allied products also used more power than last year, while printing and petroleum refining showed gains both in employees and payrolls, and meat packing, cast-iron pipe, and flour milling showed gains in payrolls alone. Agricultural implements, on the other hand, attracted attention by reporting some loss in activity from the year before, in contrast with the steady gains shown heretofore.

Foreign trade has been heavily cut by worldwide depression and decline in commodity prices, exports being off 21 per cent for April and 20.6 per cent for the four months as compared with a year ago, and imports were off 24 per cent and 21 per cent for the same period. It is interesting to note that exports of manufactured goods, while down from a year ago, are holding up better than other groups, amounting in April to 60 per cent of total shipments as against 54 per cent in April a year ago.

Commodity Prices Easier

Prices at wholesale have continued irregular, and on the whole displayed a downward tendency, with the result that weekly composite price indexes such as that of Professor Irving Fisher have reached new low levels for the year. Undoubtedly the failure of prices to show more stability is one of the disappointing features of the month, but the feeling is growing that considering the drastic character of the decline in some articles the final

resistance level cannot be far off. Notable among the commodities showing further declines were steel, sugar, coffee, butter, eggs, rayon, silk, rubber, silver, and tin.

The wool markets, on the other hand, have given a much better account of themselves. While prices in this country have not improved materially, foreign markets have been distinctly firmer, with prices at London and Australian auctions up 15 to 20 per cent from the March low points. What is still more encouraging, competition at the recent London sales was very keen, while reports from Australia indicate total wool sold and shipped during April to have been larger than for any corresponding month in recent years. Press despatches from Uruguay likewise indicate a decidedly better feeling due to the improved tone of the London market, and hopes are entertained that the large stocks accumulated there may soon begin to move. All of which illustrates how promptly improvement in one quarter spreads and makes itself felt on the general situation. Should the improvement continue it will be of enormous benefit in assisting in the recovery of wool-producing countries now suffering from acute depression.

In copper likewise, prices rebounded from the extreme low point, the drop from 14 to 12¼ cents having led to such heavy buying as to encourage producers to post an advance to 13 cents.

The grain markets have closed the month with wheat around $1.07 a bushel for May delivery at Chicago, as compared with around $1.00 at the end of April. Other grains and cotton have undergone the usual fluctuations, but show little net change for the period.

The Heavy Industries

Steel ingot production for the first four months of this year amounted to 16,287,000 tons, a decrease of 13 per cent from the corresponding months of 1929 but only 3 per cent under the figures for 1928. During May the rate of steel mill activity eased slightly and closed the month at 75 per cent capacity compared with 81 per cent at the year's high point reached in February. While the current rate represents a substantial reduction from the level a year ago when the industry was operating practically at capacity, the showing is favorable considering the increase in mill capacity during the year and the conditions existing in many other industries.

April building figures showed the total of construction contracts awarded throughout the country to have been $483,200,000, an increase of 6 per cent over March but a decrease of 25 per cent from April a year ago. In May the weekly reports through the 16th indicate a daily average of awards practically the same as in April, but 18 per cent under those of May last year. Contracts awarded for public works and utilities during the first four months of the year totalled $483,000,000, an increase of more than 30 per cent over last year. Residential building, however, continues to lag.

Slow building operations this year naturally have affected the building materials industries unfavorably. During the first 18 weeks of 1930 the lumber industry on the West Coast operated at 34 per cent below capacity, notwithstanding which mill inventories increased during the period and were 20 per cent greater in May this year than a year ago.

Production of automobiles during April amounted to 442,630 passenger cars and trucks, an increase of 10 per cent compared with the total for March, but a decrease of 29 per cent from the exceptionally high level of April a year ago. Barring 1929, production for April was larger than in the corresponding month of any previous year. An unusual situation, however, exists in that production has been concentrated largely in the light car field, with approximately 65 per cent of the passenger car production accounted for by Ford and Chevrolet. All manufacturers continue their policy of keeping production in close step with sales so that stocks of new cars are low, and the industry is in a position to respond quickly to any improvement in retail demand.

1930 Profits and Dividends

Since our tabulation of first quarter profits was published last month a considerable number of additional reports have been issued, but do not change the general showing to any great extent. Figures for three hundred companies representing numerous lines of industry and trade have now appeared in the press, and show a decrease of 21 per cent for the first quarter in 1930 as compared with the first quarter in 1929, the aggregate net profits for all companies combined declining from approximately $438,000,000 to $344,000,000. In the corresponding quarter in 1928 the same companies had total profits of $327,000,000, so that the current year is still 5 per cent ahead of two years ago.

Another measure of business profits, which perhaps will be more readily appreciated by the average investor, is the extent to which they cover the dividends that are being currently paid out. We are presenting the summary of such an analysis covering all the available first quarter reports, classified according to broad industrial groups, but not including railroads and public utilities.

Of the 300 companies studied, 27 were not paying any dividends on either common or preferred stocks and were taken out of the general table and shown as a separate item at the end. The remaining 273 companies were

SUMMARY OF FIRST QUARTER NET PROFITS AND DIVIDEND REQUIREMENTS OF CORPORATIONS PAYING DIVIDENDS

Based on Rate in Effect at Beginning of Year

No. of Companies	Industry	1929 Net Profits (in 000's)	1930 Net Profits (in 000's)	1930 Dividend Requirements (in 000's)	1930 Profits to Dividends Per Cent
6	Amusements	$ 13,328	$ 19,978	$ 7,417	269
15	Autos (except G. M.)	37,754	10,293	19,153	54
1	Autos—Gen. Motors	60,318	44,969	34,995	129
22	Auto Accessories	22,854	12,482	10,068	124
8	Baking	9,432	8,498	6,920	123
6	Building Materials	3,149	1,992	2,238	89
17	Chemicals	44,129	35,124	24,451	144
6	Coal Mining	1,781	1,066	1,177	91
11	Electrical Equipment	23,841	21,375	16,322	131
18	Food Products	27,940	28,375	22,371	127
8	Household Supplies	2,869	1,568	2,954	53
22	Iron and Steel	73,841	60,728	36,509	166
18	Machinery	9,626	8,294	5,266	158
4	Merchandising	4,352	3,568	2,837	126
12	Mining—Non-ferrous	23,257	12,435	16,172	77
6	Office Equipment	6,108	4,728	3,893	121
7	Paper Products	1,716	2,580	3,168	81
19	Petroleum	26,532	21,875	18,689	117
8	Printing and Pub.	8,921	9,439	6,055	156
4	Railway Equipment	4,607	5,421	3,600	151
3	Realty	2,709	2,367	1,594	148
5	Restaurant	1,700	1,930	1,118	173
8	Textiles and Apparel	1,344	674	515	131
6	Tobacco	2,407	1,948	2,230	87
33	Miscellaneous	20,590	17,686	15,309	116
273	Dividend Payers	$435,105	$339,393	$265,021	128
27	Non-Dividend Payers	2,594	4,649	—	—
300	Grand Total	$437,699	$344,042	—	—

paying dividends, common and/or preferred, that would call for approximately $265,000,000 during the quarter. Actual net profits came to $339,000,000, so that current dividends were earned and there was a margin of 28 per cent to carry forward to surplus account.

In going down the list of individual industries it will be observed that a majority of the groups are earning their current dividends with something to spare, and this is strongly reassuring in view of the sharp slump that occurred in earnings. In all tabulations of this sort one of course must bear in mind that a few, or even one, outstanding company may substantially improve the showing for its group. Therefore, the "averages" are sometimes deceptive, in that the surplus profits of some companies cannot be applied to help other companies that are not earning their dividends. This year 31 of the companies had net deficits aggregating $8,641,000, which were deducted in arriving at the totals. A count of the dividend paying companies reveals that about seven out of every ten earned their requirements during the quarter, while three did not.

The records of more than one hundred important industrial companies for which a series of quarterly reports is available for several years back show that, on the average, the first quarter contributes about 24 per cent of the full year's profits, the second quarter 28 per cent, the third 26 and the fourth 22 per cent. This division is of course subject to modification in case there is a marked change in business conditions during any one year, and if the last half of the current year brings an expansion in activity the volume of profits should show an increase over the first half, instead of the normal slight decrease.

Money and Banking

The money markets have ruled easy during the past month and there have been no very important changes in the condition of the member banks, which continues to reflect a slack demand for commercial loans and a strong position with the reserve banks.

Money rates on commercial paper, after ruling for several weeks at 3¾ @ 4 per cent, have now been lowered to 3½ @ 3¾. Call money renewals after the first few days of May were uniformly on a 3 per cent basis, with considerable amounts offered later in the day or outside of the Stock Exchange at 2½ per cent. This is the lowest, except for a brief period in March when Treasury financing and tax operations caused a temporary surplus of funds, since the year 1925. Last year at this time commercial paper commanded a 6 per cent rate and the average call loan renewal rate was 8 per cent.

Loans and investments of the reporting member banks showed the customary liquidation after the first of the year and reached their low point at the end of February, since

which time their combined total has been rising quite steadily. A significant shifting about has taken place in the constituent items, however, which can be seen from the following comparison of the principal items on May 21 with those of February 26 last and with the end of May, 1929. Demand and time deposits, as well as rediscounts with the reserve banks are also given:

WEEKLY REPORTING MEMBER BANKS
(In Millions of Dollars)

	Actual May 21, 1930	Change from Feb. 26, 1930	Change from May 29, 1929
Secured loans	$ 8,322	+$681	+$1,210
All other loans	8,484	— 302	— 606
Investments	5,855	+ 280	+ 56
Loans and invest.	22,661	+ 658	+ 660
Demand deposits	13,382	+ 438	+ 591
Time deposits	7,132	+ 258	+ 347
Government deposits	50	+ 45	— 49
Total deposits	20,564	+ 741	+ 909
F.R.B. rediscounts	210	— 33	— 778

The increase of $681,000,000 in secured loans during the past three months is due to the recovery in the level of stock prices and to the increased trading on the exchanges, also to the heavy offerings of new bond issues which have not yet been completely distributed by dealers. The rise of $1,210,000,000 as compared with a year ago, however, does not indicate that more funds are now being supplied to the security markets but only that the accommodation to brokers is being extended through the banks instead of by non-banking lenders directly. As a matter of fact, total brokers' loans made by and through New York City banks now stand around $4,000,000,000 as compared with $5,500,000,000 a year ago.

Loans other than secured, which are generally assumed to represent borrowing for commercial purposes, are not only $600,000,000 less than a year ago but in the past three months have declined by $300,000,000, whereas the normal seasonal movement would be upward. There are three factors entering into this decrease, namely, the lessened rate of business activity, the lower level of commodity prices, and probably also the substantial offering of new bond issues, the proceeds of which were applied to reducing bank indebtedness. It would therefore be a mistake to attribute the decline in unsecured loans solely to the slump in business.

The increase of $280,000,000 in investment holdings in the past three months, bringing them $50,000,000 above this time last year, is a favorable development, showing that the banks are rapidly replenishing their secondary reserves that they were forced to throw overboard to meet the abnormal loan demands last year. This has helped in the disposal of new bond offerings this year and has been a factor in raising the prices of outstanding bond issues.

At the Federal reserve banks the situation never was stronger, the bills discounted for members amounting to only $210,000,000 on May 21, which was $133,000,000 less than the figure of three months previous and contrasts with nearly $1,000,000,000 a year ago. A considerable addition to the country's gold stock as a result of imports since the first of the year has been a factor in enabling the member banks to reduce their indebtedness to the reserve banks without drawing down their own reserve accounts. Bills purchased by the reserve banks in the open market are comparatively small ($187,000,000) while holdings of United States government securities have been maintained slightly above $500,000,000, but total reserve bank credit in use, as comprised of the three items above, is less than $1,000,000,000 and well below the same date a year ago. Reductions in rediscount rates were announced by the Federal Reserve Bank of New York, from 3½ to 3 per cent on May 2, and by the Federal Reserve Bank of Boston, from 4 to 3½ per cent on May 8; at the other ten reserve banks a 4 per cent rate is in effect.

During the month the United States Treasury sold an issue of $104,600,000 of 90-day non-interest bearing Treasury bills on a discount basis of 2.54 per cent. This is the fourth offering of this type of government obligation since it was introduced last December. The original offering of $100,000,000 was sold on a 3¼ per cent basis, the second, of $56,108,000 in February, on a 3.30 basis and the third, of $51,316,000 in April, on a 2.93 per cent basis. It is thus apparent that the Treasury is receiving the benefits of cheaper money market conditions and that the new method of financing by means of Treasury bills is meeting with popular favor.

The Situation in Europe

European financial affairs during the past month were largely influenced by the events relating to the Bank for International Settlements which was officially put into operation on May 20. On that date the capital of the Bank was subscribed in ten different countries, altogether 124,000 shares out of the total authorized 200,000 shares, each for 2,500 Swiss gold francs.

Subscription was open to the public only in France and Belgium. Although the allotment in each country amounted to only 16,000 shares, of which 25 per cent was payable at the time of subscription, the fact that the issue was oversubscribed practically 160 times in France caused a considerable shifting of funds from London to Paris. During the two weeks preceding the date of issue about 14

million pounds left London for Paris. Of this amount about 10 million pounds was reported to have come from the Bank of England and 4 million from the open market. The actual decline of the gold holdings of the Bank of England from 164.5 million pounds to 158.4 million pounds was, however, only 6.1 million pounds, the rest being offset by heavy shipments of gold from Australia.

Bullion of the Bank of France increased between May 2 and May 16 by some 840 million francs to 43,187 million francs, which is the highest figure ever reached. The shift of funds from London to Paris also affected the quotation of sterling exchange, which declined to slightly below the $4.86 level, the lowest so far this year. The pound is now practically the only important European exchange below par, the others, particularly the Swiss franc, selling at a premium.

Thus with about 15½ million dollars of capital and its internal organization practically set up, the Bank for International Settlements is ready for business. The next step stipulated in the Young Plan, the flotation of a 300 million dollar Reparation Bond Issue is still being discussed at the conference of investment bankers of ten countries. Thus far only the allotment of the Loan among nine different markets has been made public. It is known that the bonds will carry a nominal interest rate of 5½ per cent and that the terms will vary slightly in each of the nine markets. This, it is believed, will make them less readily transferable from one market to another and prevent clogging of such international capital markets as London.

Early in the month practically simultaneous reductions of official rediscount rates by one-half of one per cent were made in London, Paris and Brussels. Open market rates in all these countries have been for some time considerably below the official rates and the reduction was very likely intended to make the latter more effective. The Reichsbank and the Bank of Italy did not take similar action until May 20, when each reduced the discount rate by one-half of one per cent. Following is a list of changes in rediscount rates since the beginning of April:

Apr.		Per cent		May		Per cent	
3	Sweden	4	to 3½	1	England	3½	to 3
3	Switzerland	3½	" 3	1	France	3	" 2½
24	Italy	6½	" 6	2	Denmark	4½	" 4
28	Finland	7	" 6½	2	Ireland	4½	" 4
30	Belgium	3½	" 3	19	Germany	5	" 4½
				19	Italy	6	" 5½
				23	Portugal	8	" 7½
				23	Austria	6	" 5½
				28	Hungary	6	" 5½

The May reductions brought the official discount rates in several additional countries, notably Germany and Austria, back to the pre-war levels.

The condition of business still appears to be spotty in Europe, speaking generally. While good in some countries, like France, or Sweden, in other countries it shows little or no definite improvement. With industrial activity quiet, open market money rates are still moving downward, and despite the May reductions, further decreases in England, Germany and Holland would not be surprising. On the other hand the investment money rates have been but slightly affected by recent developments, and in Germany and neighboring countries there is now a wider divergence between the long and short-term money markets.

The Bond Market

The past month witnessed no appreciable slackening in the heavy volume of new bond offerings, the total through May 28th being approximately $580,000,000 as against $618,000,000 for the full month of April. New public utility issues, aggregating $146,000,000, comprise the largest single item in the current month's total, while industrial and foreign offerings have also been large, totalling $142,000,000 and $129,000,000 respectively. New municipal issues of approximately $99,000,000 in May were considerably greater than the total of $77,000,000 in the month of April.

These recent heavy offerings have caused some further accumulation of undigested issues in the hands of dealers as a result of which the temporary state of congestion in the bond market, which became apparent in April, has not yet completely disappeared. Nevertheless, bond prices as a whole have been remarkably firm in recent weeks, with many high-grade issues showing net advances since the first of May.

The burden under which the bond market has been laboring since the first of the year, is due not only to the volume of offerings but to the relatively large portion representing the raising of new capital as distinguished from refunding operations. Following is a table, taken from the compilation by the Commercial and Financial Chronicle, which shows the character of new bond offerings during the first four months of 1930 compared with the corresponding period in the three preceding years:

NEW BOND OFFERINGS, JANUARY-APRIL
(000,000 omitted)

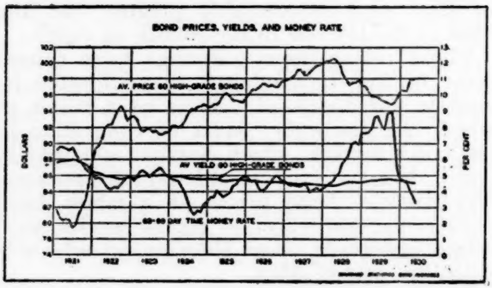
	1927	1928	1929	1930
New Capital Issues	2,170	1,867	1,225	2,375
Refunding "	586	995	300	182
Total	2,756	2,862	1,525	2,557

The above comparison shows that new bond offerings, totalling $2,557,000,000 during the first four months of 1930, were approximately $1,000,000,000 greater than the total for the same period in 1929, and only slightly less than for the same months in 1928 and 1927.

Of still greater significance is the fact that refunding issues have comprised such a small proportion of the 1930 total. This year 94.5 per cent, or approximately $2,375,000,000, has been in issues requiring the commitment of new capital. The latter figure is almost double the total of new capital bond issues during the same period in 1929, and well above the comparable totals for 1928 and 1927.

That bond prices have been able to score appreciable net advances since the first of the year in the face of this tremendous drain of new capital is an indication of great underlying strength in the present bond market. The explanation, of course, lies chiefly in the decline of interest rates during the past six months. It is a fundamental of bond market conditions that whenever short-term money rates fall below the yield on high-grade bonds, banks and other institutional investors become purchasers of long-term securities, and bond prices tend to advance.

This relationship is shown in the chart below, which compares bond prices, bond yields, and time money rates on stock exchange collateral from 1921 to date.



It will be observed that the sharp advance in bond prices between September, 1921, and October, 1922, coincided almost exactly with a period when the time money rate was below the average yield on 60 high-grade bonds. Similarly, from December, 1923, to March, 1928, except for two brief intervals, the time money rate remained below the average bond yield; throughout this period the advance in bond prices was almost uninterrupted. A reverse movement is illustrated by the decline in bond prices from April, 1928, to October, 1929, which was accompanied throughout by a level of money rates in excess of average bond yields.

Bond prices began to turn upward again last Fall when money rates declined sharply following the stock market crash. The purchasing of bonds by banks, however, did not become significant until about the first of March when the time money rate dipped below the average bond yield. Thus total investments of the weekly reporting member banks of the Federal Reserve system actually showed a net decline of $50,000,000 between November 6, 1929, and March 5, 1930. Since then, however, total investment holdings of these banks have shown a marked increase, the net gain amounting to more than $300,000,000.

On the basis of past experience, it is reasonable to expect that as long as short-term money rates remain below average bond yields, banks as a group will continue to be buyers rather than sellers of bonds and this condition is a factor of great underlying strength for the bond market at the present time.

The Farm Board Act

The annual meeting of the Chamber of Commerce of the United States, at its headquarters in Washington, D. C., during the first week of May, was the occasion of a sharp clash of opinions over the Farm Board Act and the policies of the Farm Board as thus far developed. It has been obvious that public opinion is sharply divided on this subject and natural that dissatisfaction should find expression in this meeting. The National Chamber is a federated body of which the local Chambers of the country are members, hence is the most representative organization of business men in the country.

The discussion was over the proposed resolutions, and the resolution adopted is not directed at the personnel of the Board or the policy of the act in creating a Farm Board, but solely at the use of public funds in support of prices. The following extract from the resolution gives the substance of it:

> The anticipated benefits to the farming interest as a whole have not been realized. On the contrary, there has been impairment of the marketing structure and prevention of support which otherwise would have been given to the marketing of agricultural products which were affected by the use of public monies. Without benefit to agriculture there has been imposed unbearable hardships upon business enterprises unable to maintain their position against discriminatory competition from the Government.
>
> We accordingly express our continued opposition to the use of Government funds in providing capital for the operation of agricultural co-operatives, and for the buying and selling of commodities for the purpose of attempted stabilization. We condemn as a permanent policy of Government the employment of public funds for the purpose of participation in business, in competition with established agencies and support the proposal for an amendment of the agricultural marketing act to repeal the authority of the Federal Farm Board to use Federal funds for such a purpose.
>
> We advocate the continuance of the Federal Farm Board as a proper agency, conducted at Federal expense, for the gathering and circulation of authoritative information, for ascertaining conditions of over-production, for advice as to its prevention, and for assistance toward the solution of the numerous and important business problems affecting agriculture both in production and in marketing.
>
> We believe it is desirable to apply sober and devoted study to methods by which co-operative organizations on their own resources may find their warranted place, without the present danger of undermining marketing facilities and thus unfavorably affecting farm product prices. We therefore recommend that the chamber with adequate preparation

call a conference of wide representation, including farm co-operative leaders, to study and define measures of sound and effective aid to agriculture.

The debate over the resolution was very animated, Chairman Legge, of the Farm Board and the Secretary of Agriculture taking the part in opposition and numerous delegates taking the affirmative. It is worthy of mention that among the opponents was Mr. John Brandt, a delegate from Minnesota, who is the head of "Land o' Lakes Creameries, Inc.," the largest manufacturers of sweet cream butter in the world. Mr. Brandt is a man highly respected in the business world, and his presence as a delegate may be noted as proof that the Chamber of Commerce is not without membership representing farm interests. Moreover, "Land o' Lakes Creameries, Inc.," is a striking example of successful cooperative development without any aid from public funds, although it has recently received a loan of $1,000,000 from Farm Board funds.

Mr. Brandt made the last speech before the vote on the resolution was taken. The New York Times report says:

The vote on the resolution followed an appeal by John Brandt of Litchfield, Minn., that the Chamber give the Board a chance to carry out its experiment in co-operative marketing.

"Adoption of this resolution," he warned the business men, "will be construed by farmers and the whole nation as a declaration that this Chamber is against agriculture. Your resolution will not change the law. But it will create the greatest rupture in a long time between organized business and organized agriculture. Speaking as a friend of the Chamber of Commerce, I warn you not to pass this resolution."

But when the vote was taken there were only scattering noes.

The Reaction

Mr. Brandt's prediction was quickly verified. Farm leaders have denounced the action as prompted by the "great selfish speculative interests that have year after year profited at the expense of agriculture through the fluctuations in the price of the produce of the farm." Congressmen battling for renominations are naming the Farm Board Act as one of their chief claims to support, and warning their constituents that the "industrial barons of the East" are on the war-path against the farming sections, etc. All of which is very much like political controversy, but not at all informing upon the important economic question involved. Perhaps Mr. Brandt was right in his opinion that nothing but rancorous controversy would result from the Chamber's resolution at this time, but the other view was that the Government was entering upon a policy condemned by all experience, that discussion must come and the sooner it was begun the better. Since the present session of Congress is about to adjourn and the next session will not convene until December, it is quite certain that the Board will continue to function at least through another crop year. The advocates of the resolution of course knew this, but wanted to put the Chamber on record and start a discussion of the merits of the Farm Board act and policies. It is highly desirable that the discussion shall bring out the real facts of the situation.

A member of the farm board is quoted as saying that "no greater impulse could be given to employment and business improvement right now than for the farmer to have a better income." Of course, this is true, and nobody dissents from it. Moreover, although the resolution condemns the entrance of the Government into the field of private business, the basis of the objection in this case is not simply that the activities of the Farm Board interfere with private business, but that they are ill-advised economically and will result in injury to the farmers and the entire public.

What Is the Farm Problem?

The origin of this farm problem was in the stimulus given to the production of foodstuffs everywhere outside of Europe by the war. Western Europe had been accustomed to receive large quantities from Russia, and when these were cut off and extensive areas in the war regions were devastated at the same time, rising prices caused a great expansion of acreage in Canada, Argentina, Australasia, the United States and to some extent elsewhere. Since the war Europe, outside of Russia, is back in full production. Russia has exported a considerable amount of all kinds of grain from the last crop, and must be considered a continuing, perhaps increasing, factor in the future. The farm problem is not confined to the United States. It is not the result of any policy or conditions peculiar to this country. It is a world problem, resulting from the rapid increase of acreage in the war time. It cannot be solved by dumping our surplus on other markets, already overloaded, or by building warehouses and storing a continuing surplus.

The problem has been with us ever since the recovery of production in Europe. Candidates for office and writers of political platforms have promised more or less vaguely and blindly to do something about it, without any well founded ideas of what could be done. The burden of accumulated promises finally fell upon President Hoover. By common consent he had to do something. He had been consistently against the McNary-Haugen bill because of its complicated and artificial features. A Federal Farm Board, composed of men qualified to study all phases of the situation, and given ample authority seemed to be about the only solution, if something must be done. Probably few besides the makers of the bill realized how much authority was being given.

There is no question as to the good faith of President Hoover in desiring to carry out his party's pledges, confirmed as they were by his own, or of the sincerity and good purposes of the Farm Board. Mr. Legge has shown himself to be an able, independent and forceful leader. There has been no charge of lack of loyalty to the purposes of the act which is not fairly traceable to partisan motives. Unfortunately, the whole undertaking is inevitably involved in politics and this must be a continuing handicap upon its operations. It is practically impossible for a public Board, given large powers for the announced purpose of aiding the farmers, to refrain from using such powers to the limit in time of stress. It would be open to criticism for not having used every resource placed at its command, if it failed to do so.

When the project of a Federal Farm Board was first proposed, much was said in general terms of the value of such a body in an advisory capacity, for guidance in the regulation of production, encouragement in cooperative organization, diminishing the spread between producer and consumer, development of new crops and new uses for agricultural products, disposition of marginal lands now in cultivation but which might yield larger values in forest growths, etc., etc. The variety of the suggestions undoubtedly gathered strength for the proposal to create a Board. Most of the proposals seemed to lie already within the activities of the Department of Agriculture, but the subject was of such importance that if a new Board would increase executive efficiency the additional expense was not considered of serious consequence. However, most of these ideas are now in the background, because public interest has centered in the marketing operations and support of prices. The resolution of the Chamber of Commerce is directed against these operations only.

Practicable Aims

There are wide differences of opinion as to what is possible of accomplishment under the Farm Board Act. Price stabilization, elimination of speculation, smaller profits for dealers, and better net returns to the producers are commonly hoped for. Interest centers in the two leading export commodities, wheat and cotton, but the Board is expected to help all producers and already is extending financial assistance to numerous groups.

Mr. Legge has indicated his opinion that so far as the principal products are concerned not much saving can be made in mere handling profits. In his letter to Mr. William Butterworth, President of the Chamber of Commerce, dated December 17, 1929, he admits that such profits are small and says:

Unless we can work out a different system of marketing which goes far beyond the question of saving a fraction of a cent per bushel on grain, a few cents per bale on cotton, or a few cents per head on livestock, as compared to the present system, there would be little hope of progress in the line of putting agriculture on an equality with other industries, for the simple reason that if all of these operating costs were added to the price the farmer gets for his product it would make but little difference in the return to the grower. On the other hand, if gradual marketing of what the farmer has to sell through a longer period instead of within a few weeks, as is now the prevailing practice, can be brought about, it may be possible to make a material improvement in the returns to the producer.

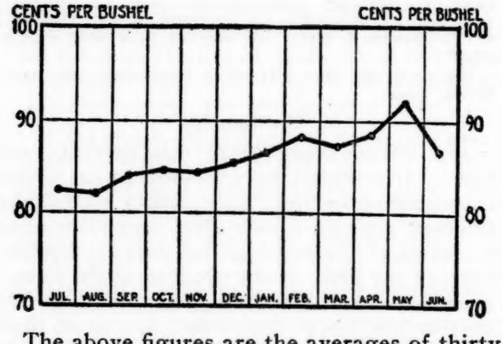
This seems to center attention upon the old claim that prices are regularly depressed at harvest time and advanced in later months, with unreasonable profits to speculators who carry products from one season of the year to another. The price records refute this representation. The Federal Trade Commission in its Report on the Grain Trade, 1924, volume VI, gives the following table:

Thirty-year Averages of Monthly Average Prices for Corresponding Months, for Wheat, Chicago, 1886-1887 to 1915-1916

(In Cents per Bushel)

July	82.69	January	86.84
August	82.44	February	88.35
September	84.21	March	87.23
October	84.83	April	88.73
November	84.60	May	92.11
December	85.67	June	86.83

The following chart illustrates these figures:



The above figures are the averages of thirty Julys, thirty Augusts, thirty Septembers, etc. If there was any regular movement affording undue profits, as represented, these figures would show it. The greatest spread is from July or August to May—nine or ten months—and in either case it is less than ten cents per bushel, which must cover all carrying charges, including warehousing, insurance, interest and risk. Before May the greater part of the United States crop has passed into consumption.

May prices are influenced by the prospects of the coming crop. Obviously nobody knows in the Fall what the condition of the Fall-sown crop will be in the following May, and whoever carries wheat from Fall to Spring takes

the risk involved in this uncertainty. These figures show beyond dispute that there is no certain or average profit in carrying wheat from one time in the crop year to another or even from one year to another. In the last two years the price has been lower in late months of the crop year than at harvest time.

If then there is little prospect of savings in mere marketing methods, the hoped-for results from Farm Board activities must be based on faith in a policy of persistent market control, supported by the great resources of the United States Treasury.

As to price fluctuations from time to time, they result naturally from crop variations, the changing amount of stocks available, and the weight of opinion in world markets concerning prospective supplies. In other words, they represent the workings of the law of supply and demand.

Here then is the issue upon which discussion actually is joined. The most plausible argument offered in support of the policy is that the "experiment" should be given a fair trial, but when does an "experiment" like governmental price-fixing cease to be an experiment worthy of further trial and expenditure? One of the greatest obstacles to social progress is the common failure to learn by the experiences of others or even by our own past experiences. Society goes on repeating the old fallacies, falsehoods and blunders, times without end, to its infinite cost. When the McNary-Haugen bill was being pressed, the leading argument for it was that Great Britain was effectively controlling the price of rubber and Brazil was effectively controlling the price of coffee, both of which "experiments" have since broken down and been abandoned. Everybody who knew anything of similar "experiments" knew that these were doomed for a very brief period at the most, but they had to be tried, and in the end both rubber and coffee producers were the worse for the trial.

In short, the present undertaking simmers down finally to the problem of controlling prices in the face of continuing over-production, which Mr. Legge frankly says cannot be done. If there is any difference between this attempt at stabilization and all the others which have ended in failure somebody ought to point it out.

The Debate Before the Chamber

It has been said that the advocates of the resolution before the Chamber of Commerce were all traders on the commodity exchange, whose business was directly affected by the operations of the Board. This, however, was not the case. One of the most carefully prepared and effective addresses in support of the resolution was by Mr. Daniel A. Millett, an investment banker and stockgrower of Denver. He said, in part:

> The Farm Marketing Act is part and parcel of what to me is a fantastic dream, world-wide, of stabilization, with or without governmental agency, so that every producer in every line will be assured a profit through control of production, and without the discipline of the economic law of supply and demand working through price, which eliminates the marginal producer.
>
> What I want to urge on you today is that we need, not more combination, including farmers, but less interference with the economic law of supply and demand, functioning through price, because that is the only sure, inevitable, sound, scientific method of eliminating the marginal producer.
>
> What do we mean by "Supply and Demand functioning through Price?"
>
> Why, we mean the total amount of goods and services in the world, meeting the effective wants of the world, as measured by money, with the resulting placing of exchange values on these goods and services. This exchange value or price fixes, for example, the number of bushels of wheat which shall be exchanged for an automobile. No account is here taken of changes in the purchasing power of money in any particular country, or as between countries, but is a concept of goods and services meeting each other, to be exchanged for others in the world as a whole. When a price is profitable for any product, its production increases; when unprofitable, its production decreases.
>
> As a young Cambridge economist pointed out a few years ago, some two billion human beings in the world have their economic activities controlled by this mechanism (not, mark you, by a great Central Economic Board of the World issuing orders to all producers and consumers). This is the world market. It is of evolutionary growth and hence adapted to fit needs. It has no central location but is carried on mainly in public exchanges located at strategic points in different countries in which demand and supply make themselves felt with the resultant price, which controls.
>
> In this world market, of course speculation plays an important part, because man looks to the future. The speculator serves a real economic purpose in buying when products for future delivery appear too low, and selling when they appear too high. Out in Colorado many wise wheat farmers use the future markets in an intelligent manner as an adjunct to their business of growing wheat.
>
> This world market with its present goods and speculative futures is most delicately adjusted, changing from minute to minute. It does not await the convening of a World Board, but permits individual initiative to make effective its judgment by buying or selling.

Mr. Millett's comments upon the Marginal Producer likewise are very clear and to the point. He said:

> What do we mean by the Marginal Producer? Why, nothing more or less than that, because of his inferior location or inferior efficiency for the production of a particular product, he is the high cost producer of that product. * * *
>
> What is the difference between control of production by governmental advice as it is being attempted by the Farm Board, or by governmental compulsory measures which are impracticable, and that exercised by the Economic Board?
>
> Just this: The Farm Board says to all producers of wheat or cotton or any other agricultural commodity,—You all reduce your acreage a certain percentage. The Economic Law says,—Production must be decreased by the elimination of the marginal producer. The Economic Law does not over the radio advise a uniform reduction of acreage, but silently draws a line—the margin—and the high cost producer on the line or below it stops producing, leaving the low cost, efficient producer, and he's the fellow we want to produce for us, continuing, or even increasing his production, to the welfare of society. And my guess is that the low cost efficient producer will not cut his production, nor should he, because he is soundly following the dictates of the Economic Law, and is thereby benefiting all of us.

Further, success in agriculture is intensely individualistic, and properly so. The old English adage is still true—"The eye of the master fattens the cattle." Now and then some gifted individual may operate on a large scale. There will be branches of agriculture which can work out cooperation methods successfully. As long as these results flow from the operation of the Economic Law, brought about by the farmers themselves, we all are for them.

The Government's Efforts Promoting Production

The speaker referred to the action of Congress in establishing the Federal Land banks, the Joint Stock Land banks and the Federal Intermediate Credit banks, which now have loans outstanding to the aggregate of over $1,800,000,000 and said:

Through governmental action in establishing these banks we have cheapened one of the items of the cost in the production, namely, interest, and have also increased the amount of credit available for agriculture. The only economic justification for this procedure would be to increase production and to decrease the cost of the products.

The Department of Agriculture has with great ability and perseverence for fifty years instructed the farmers in methods of increasing production, to the end that the unit cost of production might be reduced. That's sound.

What a glaring inconsistency, to set up at the cost of the taxpayers one set of government institutions to increase agricultural production, and lessen its cost, and then turn around and set up another galaxy of government institutions to increase the price of the thereby created surplus and to limit its production!

This is not saying that there should be no thought of adjusting production to needs, but emphasizes the importance of reduction by natural elimination of the high cost producers. It is an absurdity for the Government to spend vast sums in introducing improved methods of agricultural production with the result of keeping the same proportion of the population on the farms, with part of the acreage and part of the workers idle. The consuming population is entitled to the benefits of these expenditures and resulting economies in production. This is a vital matter in the welfare of the masses.

Mr. Millett likewise emphasizes the fact that logically the next step in regulation will be to apportion the amount of each crop which the individual farmer will be allowed to produce, and calls attention to a bill now pending, H.R. 5720, introduced December 2, 1929, by Congressman McKeown, of Oklahoma, to amend section 5 of the marketing act, which bill provides that the Farm Board may (after publishing notice in county newspapers and posting it in post-offices) allocate the acres in each state and county that each individual farmer shall plant in each crop.

A law of this kind will be necessary in order to secure uniform restriction of acreage, for surely the efficient producers will not voluntarily sacrifice the volume which they are entitled to by right. Governor Reed of Kansas says that Kansas will not restrict, and the Kansas producers back him up.

Effects of Farm Board Policies Upon Production

The advocates of the policy of governmental aid refuse to consider the probable effects of such aid upon production, and yet this is the vital consideration. It is the factor which always has defeated the purposes of such legislation. What, for example, may be reasonably expected to be the result of fostering the dairy industry in all parts of the country by means of loans at a low interest rate for the improvement and enlargement of facilities and for carrying butter in storage? The intention is to make the industry more profitable to those now in it, but the policy affords an inducement for others to enter it. If an increase instead of curtailment of production was wanted, what better means to that end could be adopted?

The $1,000,000 loan made from Farm Board money to "Land O'Lakes Creameries, Inc.," was officially stated to be for the purpose of carrying butter in storage and making advances to farmers. The advances probably are for the purpose of increasing production. It remains to be seen whether such loans, distributed generally over the country, will have beneficial results to the dairy industry. There are many localities in this country not yet supplied with creameries but wanting them. The following figures for the growth of the dairy industry in Mississippi are interesting in this connection:

MILK UTILIZING PLANTS IN MISSISSIPPI
1919 and 1929

Milk Utilizing Plants	1919	1929
Creameries	24	26
Cream Buying Stations	4	176
Condensaries	0	5
Cheese Factories	0	13
Whole Milk Distributing Stations	3	16
Whole Milk Shipping Stations	4	11
Condensed Skim Milk Plants	0	6
Dried Skimmed Milk Plants	0	4
Dried Buttermilk Plants	0	4
Semi-Solid Buttermilk Plants	0	1
Ice Cream and Mix Plants	4	79
Total	39	341

DAIRY PRODUCTS MANUFACTURED
1919 and 1929

Products	1919	1929
Butter Manufactured	3,361,942	8,443,658
Cheese Manufactured	0	4,586,747
Ice Cream—Reports of Production	108,985	1,624,982
Whole Milk—Used in Cheese	0	47,095,647
Whole Milk—Condensaries	0	79,698,692
Whole Milk—Other Forms	5,665,326	31,123,265
Total—Whole Milk	5,665,326	157,917,604
Total—Butterfat Produced by Farmers	3,169,787	13,163,288

The dairy industry has conducted an active and successful campaign to obtain a higher rate of duty on imported butter, but the increase of home production is much more important than the danger from foreign competition.

The "Outlook for Agriculture in 1930," a pamphlet issued by the Department of Agri-

culture, February 1 last, estimates that the number of cows in the country increased 3 per cent last year and that the number of yearling heifers increased 6 per cent. It uttered a warning that this rate of increase would mean lower prices for dairy products, indeed already was showing this result.

One Year Under the Act

The Farm Board act is not quite one year old, and the Board was not organized for business until several months after the measure became a law, but the marketing of the 1929 crops is practically completed. It is unnecessary to review the activities of the Board in detail, and we have no inclination to do so critically. We have seen no reason to change the opinion expressed when the appointments were announced, which was to the effect that the selections were wisely made and that probably it was as good a Board as could be gathered together for the purpose. Some idea may be had now of the difficulties under which such a body must labor and the responsibilities which it must carry.

It is admitted that the prices fixed for wheat at the various concentration points were too high, and the explanation is made that the Board was misled by statisticians and experts who were supposed to know what they were talking about. That is simply one of the risks of trading in wheat to which all traders, including official Boards, always have been and all will be subject. It illustrates that the price of wheat is governed by worldwide conditions, about which much uncertainty frequently exists. The Board was confident that all the wheat this country had for sale would be wanted before the end of the crop year, at the price named, or better. Month after month has passed, but the foreign demand so confidently expected has not materialized. The crop year is practically ended for the United States, as new crop wheat will be coming on the market this month.

The figures for production upon which the Board relied probably were not so far wrong, but Europe was resolved not to pay the price. They have had plenty of rye, potatoes, corn and other foodstuffs, and the Governments have resorted to various regulative measures affecting milling operations and restricting the use of imported wheat. At no time has the situation come under the control of American and Canadian holders. The holding back of North American wheat enabled Argentina and Australasia to market their crops to better advantage than otherwise would have been the case, and they feel encouraged to plant more wheat this year. The provincial governments and Commonwealth Governments of Australia are appealing to the farmers of that country to produce more wheat, as it is needed to support their foreign trade. There is little reason to doubt that if we regularly pursue the policy of holding back our surplus wheat until other countries have first sold theirs, we will soon find ourselves out of the wheat business so far as foreign markets are concerned. It will be unnecessary for other countries to take us into account as producers.

The Federal Farm Board, through its dependent corporations, is holding the greater part of this country's remaining stocks of wheat, at an average cost considerably above the present market price. Mr. Legge thinks there is some compensation for this in the belief, which he holds, that the price might have gone lower but for the Board's purchases. This belief of itself is a comparatively harmless form of speculation, but there is also a common belief that the Government's loss would have been much larger but for the worst drought in the Southwest known in fifty years. Luck has been not wholly against the Board.

So much for the expectations and realizations of the wheat year. The Board has the wheat and is carrying it over into the uncertainties of another year. The carry-over of this country is as large as last year, although last year's crop was 100,000,000 bushels smaller than the crop of 1928. The crop in the Southwest will be somewhat smaller than last year's, and this probably will be true of the Winter wheat crop as a whole. Moisture conditions are reported favorable for Spring wheat, but the acreage will be smaller, partly as a result of efforts of the Farm Board to have the farmers substitute flax for wheat. This seems to have been a wise move, for this country imports flax seed regularly, and the duty is raised in the pending tariff bill. Nevertheless, the weather will settle whether the all-wheat crop in this country will be larger or smaller than last year.

Canada had a very short crop last year, and the first official Dominion report, based on acreage, forecasts an increase this year of about 125,000,000 bushels, Australia and Argentina both have had very short yields by the crops recently harvested, and therefore may do better next time. European reports thus far are generally favorable, and it is to be considered that the important countries are all striving to reduce their importations of foodstuffs. Even the ministry of Great Britain is considering an enactment requiring millers to use a certain proportion of home wheat in the manufacture of flour, and of raising further difficulties about the importation of flour.

The Threat of Russia

The most serious uncertainty in the situation, however, relates to the extraordinary efforts of Russia to again become an exporter

of wheat on an important scale. It has exported some wheat in the past year, along with more of other grains, but it has been planning for a much larger crop and exportation this year. The Soviet Government is very much in need of larger exports, as a means of making foreign purchases of manufactures, and for several years has been developing a system of state-owned or state-operated farms. These lands are operated in large units, equipped with machinery, largely from the United States, and to a considerable extent are managed by engineer experts from the United States. The exports of tractors from the United States in the first quarter of 1930 were far above those of any previous quarter year, and the increase was mainly in exports to Russia. The Soviet authorities have stated that approximately one-half of the cultivated land is now under state-directed cultivation, and an important increase of production is expected this year. While comparatively few people outside of Russia believe that the industrial system established in that country will produce as large results as the free system of industry existing in more advanced countries, it is quite possible that under the authority of the Soviet Government and with the latest machine equipment the production of grain may be increased to a very considerable extent.

Regarding the whole situation, it is too early for the experts and statisticians to supply a trustworthy basis for an estimate on the production or price of wheat in the crop year which begins July 1, next. Until such information is available the final outcome of the United States Government upon its investment in wheat will continue to be another subject of speculation.

A Rising Tide of Production

There can be no adequate consideration of the policy embodied in the Farm Board act without taking account of all the influences that are making for increased efficiency in production upon the farms. By this time it is common knowledge over the world that a revolution in the type and use of farm machinery is well under way. This country is leading in this movement. Mention has been made of Russia's importations of the new machinery from this country, but shipments are going to all the agricultural regions of the world. In this time of general industrial depression in this country the manufacture of agricultural machinery is one outstanding exception. Deep-plowing and prompt and efficient cultivation is producing larger crops per acre, while increased power enables the individual worker to cultivate more acres. Of course, nobody knows more about all this than the Chairman of the Federal Farm Board, and probably nobody is thinking more about it or searching more seriously for the answer.

Mr. Millett has referred to the continuing and expanding work of the Department of Agriculture and the State agricultural colleges and experiment stations in research work in the instruction of a new generation of farmers and in the distribution of the latest knowledge for making the farms more productive. All of this good work is moving at redoubled speed, because the base of operations from which work is now being done is so much more advanced than formerly, and the methods of distributing the information have improved. The County Agent, an expert adviser, whose salary is paid in part by the United States Government and in part by the States, is an important factor; the boys' and girls' pig and calf clubs are another, the extension courses and farmers' week courses of the agricultural colleges are another, the master-farmer and master-homemaker competitions, the cow-testing associations, the activities of the railroads, bankers' associations and local Chambers of Commerce are others, and these are not all.

As evidence of results, here is a press report summary of a recent bulletin of the Department of Agriculture:

> WASHINGTON, March 3.—Farmers are becoming more efficient, according to the United States bureau of agriculture economics. In the last four years agriculture production has averaged about 16 per cent more than in 1919-1922, due chiefly to better farming. One of the interesting developments of agriculture today is that fewer farmers, with less labor, on fewer acres, continue to increase production.
>
> "The farmer knows more about his soils and the plants and animals with which he deals," the bureau said. "He is in better position to combat pests and apply his labor more efficiently so as to secure larger returns in volume of production per unit of labor or capital employed. He is using more fertilizer, expenditures for fertilizer in 1924 were more than double those for 1909.
>
> "The farmer is feeding his live stock better, as indicated by an increase in feed purchases. He bought on an average of nearly 70 per cent more feed in 1924 than in 1909. He is learning not only better to feed his land and his live stock, but also to select and plant better seed and to breed and feed better animals."

Can anyone believe that the effects of all these influences will be counteracted by a general appeal for a reduction of acreage to maintain prices? Will the United States Government imitate King Canute, who was said to have planted his throne on the ocean beach and commanded the tide to come no nearer?

What about the new methods of extracting nitrogen from the air, from coal and from the natural deposits of Chili, which have put the government fertilizer plant at Muscle Shoals so far behind the times, and which are becoming the basis of vast industries devoted to making cheap fertilizers and inducing the farmers to use them?

And what about the millions of acres in the so-called arid belt, east of the Rocky Moun-

tains, reaching from Mexico up into Canada, now becoming the scene of the lowest-cost farm production in the world?

Can anybody venture to say what will be a reasonable price for farm products in the future? Reasonable prices depend upon costs, and for up-to-date farmers these are on a declining scale, providing of course the farmers do not reduce acreage and operations to offset the benefits of progress. That would be a strange act for an ambitious and energetic people! The whole history of the past is that of finding relief from the hard tasks of providing necessities, in order to have time and labor for the development and satisfaction of higher ambitions and desires.

We do not suggest that any of the advocates of regulated production would propose as a permanent policy that improvements in the arts of production should be offset by reducing hours of labor or the acreage of land in use, in order to maintain a stabilized price level and a stabilized and stagnant society. No doubt, after full consideration, they will conclude that they only want enough of stabilization to afford a gradual readjustment, but attempts to slow down readjustments once begun are not often successful.

Mr. Millett has well said that success in agriculture is intensely individualistic. The government's labors in behalf of improved methods in agricultural production are necessarily directed to the farmers as individuals, and have the effect of intensifying competition among them. If all farmers followed the advice it is certain that not so many farmers would be needed, while with many lagging behind in their practice, and being gradually forced to find other occupations, the case for farm relief will always have an apparent basis. It is the same, however, in all industries. Life is intensely individualistic, and competition is a condition of social progress.

If all farmers should curtail acreage to offset the results of improved methods of production, it would hardly pay them to adopt the new methods, for the only benefit they would experience would be in having more idle time. It is of course desirable to keep production properly balanced as between the different farm products, but a general reduction of acreage as a fixed policy can only be justified if accompanied by an increased shifting of farm population to other industries.

The Distribution of Benefits of Progress

It was reported a few years ago that the citizens of a small city in one of the Southern states had formally raised and dedicated a monument to the Boll Weevil, to commemorate the service it had rendered to the community in forcing it to adopt diversified agriculture. Whether or not the monument still stands and commemorates a permanent achievement we do not know, but if a cheap method of protecting the cotton plant from the boll weevil should be discovered it certainly would release an important amount of labor from cotton production, except as lower prices for cotton induced larger consumption, as it surely would do. If cotton acreage was reduced to maintain the price, and the labor so released was employed upon other crops, the result might be over production of these. The only way benefits could result from the elimination of the boll weevil would be through lower prices and increased demand, or by having this labor shifted to new or expanding industries.

This illustrates the expansion and diversification of industry which is going on all the time as the result of improvements in industrial methods. New industries are always rising to take up the slack which seems to result from improvements in the old industries, and in this manner, not in idleness, the gains of progress are achieved.

Agriculture has to contend with innumerable pests, as rust and the Hessian fly in wheat, the potato bug, hog cholera, the corn borer, etc., and if a specific remedy could be found for each, and the weather could be brought under control, the result of course would be a great cheapening of production and an increase of it which would pass the benefits on to the consumers, provided all farmers used the remedies. It will hardly be contended that such discoveries should not be utilized, and the whole problem arising from an increasing production of farm products, outstripping the increase of population, is illustrated by this supposititious case.

However, the most advanced methods are not adopted by all farmers, or all manufacturers or all merchants at the same time. They come into use gradually and those who adopt them in the early periods enjoy the benefits which the economic law accords for their enterprise, while the unprogressive producers labor under pressure until they find employment where there is greater need for them, and therefore higher remuneration. The ultimate beneficiary of the new methods, is the public, and this is as it should be, for the high purpose of diversified industry is to provide the largest possible supply of all the products and services which will minister to the comfort and welfare of the population.

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